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SIPDIS

SENSITIVE

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SUBJECT: TURKEY/IRAQ JOINT ECONOMIC COMMITTEE TO MEET  
NOVEMBER 4

REF: ANKARA 6043

Sensitive But Unclassified

1. Summary: (SBU) The first post-war meeting of the Turkey-Iraq Joint Economic Committee will take place November 4 in Ankara, co-chaired by Turkish Trade Minister Kursad Tuzmen and Iraqi Oil Minister Thamir Ghadban. Turkey has a long list of objectives, including security for Turkish truckers and business-people in Iraq, promoting Turkish oil industry investments, and progress on bilateral agreements on investment, trade, customs, energy, and double taxation. A large number of Turkish companies are working in Iraq and trade is growing; exports to Iraq are expected to double this year to \$1.8 billion. End Summary.

2. (SBU) According to MFA and Foreign Trade officials, Turkey will host the first post-Saddam meeting of the Turkey-Iraq Joint Economic Committee November 4 in Ankara. (Previous economic talks in late 2003 and early 2004 included substantial support and input from CPA Baghdad and Embassy Ankara.) Sevkettin Ilgac, Deputy Director General in the Undersecretariat of Foreign Trade told us that State Minister for Foreign Trade Kursad Tuzmen will lead the Turkish delegation; Iraqi Oil Minister Thamir Ghadban will lead the Iraqi delegation. This follows the precedent set in the Hussein era, when the primary issue for the JEC was administering the Bilateral Trade Agreement under which Iraqi oil was bartered for Turkish goods and services.

3. (SBU) The Turkish side has a long and optimistic agenda for the meeting. Top of the list is security, followed by establishing the legal and physical infrastructure to facilitate expanding trade with Iraq, which continues to grow rapidly, despite the growing security problem and the large number of Turks kidnapped or killed in Iraq. By mid-October, Turkish exports to Iraq (this does not include humanitarian fuel deliveries) reached \$1.5 billion and are expected to reach \$1.8 for the year; more than double the exports in 2003. The Foreign Trade Undersecretariat hopes to reach exports of \$2.5 billion in 2005. A number of large Turkish contractors are working in Iraq, either in direct support of coalition forces or on other reconstruction projects. Officials estimate that as many as 1,000 Turkish businessmen and workers are in Iraq, in addition to a large number of Turkish drivers (including about 700 on the road at any given time) making deliveries into Iraq. Ilgac said a number of Turkish firms are interested in investing in Iraq. In particular, the Turkish state oil and gas firms, TPAO and BOTAS, are very interested in developing oil and gas fields in northern Iraq. (See reftel.)

4. (SBU) Turkey is concerned that trade growth could be limited because Iraq and Turkey operate only one border crossing at Habur Gate, which is already operating at full capacity, according to Ilgac. He said the Turkish side will raise the unresolved issue of the second border gate. He added that the Union of Chambers and Commodity Exchanges of Turkey (TOBB) has received government approval to modernize the border facilities at Habur under a BOT contract, but said the GOT did not want to start construction because it will disrupt traffic flow. Turkish transporters have been using road and rail corridors through Syria. Three trains of about 20 cars each cross through the northeast tip of Syria each day. However, Syria continues to charge extremely high transit fees for the rail traffic. Syria recently reduced the fees on transiting trucks and truck traffic from Turkey has increased sharply in the past month.

5. (SBU) The Turkish side will propose talks on a number of bilateral economic agreements, including a General Protocol on Bilateral Economic Cooperation, which Turkey hopes will include a Preferential Trade Agreement, and cooperation agreements on protecting investments, customs, energy, and double taxation. Ilgac said that Turkey wants to lock in low tariffs for exports to Iraq and reduce non-tariff barriers. The Turkish side also wants to discuss issues remaining from the Hussein-era oil protocols, including execution of contracts interrupted by the war for which funds had already been deposited in Halk Bank from the sale of counterpart oil deliveries. For example, Ilgac said \$50 million is contracted to be spent on railway cars, but the contract cannot be executed until the tracks in northern Iraq are

repaired. He also said Turkey will offer to repair the tracks in exchange for bartered oil shipments.

16. Comment: When asked whether Iraq's bilateral debt to Turkey would be discussed, Ilgac did not think that Turkey would be interested in trying to settle this issue right away. Turkish officials continue to work to keep transportation lines to Iraq operating, despite increasing concern and political criticism about the rising number of Turks kidnapped and killed in Iraq. Officials recognize that Turkey stands to gain when security and economic growth are restored in Iraq. Although the Turkish agenda for the JEC is overly optimistic, it shows that they want to take steps now to establish the legal and physical infrastructure to facilitate a growing economic relationship. However, the proposal to barter oil for rail rehabilitation is an example of the old-think that still prevails among Turkish trade officials. Modeled on the old 'protocol' agreements, such barter arrangements have proven to be non-transparent vehicles for abuse and corruption. End comment.  
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